
Chapter 1

Your Business Plan

Without a business plan, whatever happens to your contracting business will probably be a mistake, good or bad.

Your successful contracting business will have a detailed plan with specific actions called for at certain times. This plan is similar to a construction project's plans and specifications. The plans and specifications detail how the project will be done. Your business plan details how your contracting business will be done.

The sad truth is that many trades people go into the business of contracting without any written detail of how the business will be conducted. They would never consider building a project without a set of drawn plans and written specifications. It is no wonder that most of them will not survive the third year.

Your great advantage is that you will draw up a detailed business plan. Your business plan will place you in the top group of contractors who will likely stay in business more than five years. You also are grouped among those who are more likely to survive an economic downturn.

Sample Plan

In this book we will use a simple business plan outline to introduce you to the business planning process. In your own case you may want more items covered and more detail. This is fine as long as your level of detail is practical. You will not be able to predict the exact manner of your business. Rather you are looking for the blueprint to enable you to build a business from a detailed guide. No set of plans will detail the number of nails to place, the number and placement of plumbing fittings, or the path a wire has to follow. This comes from your trade skill. You will have to learn business skills through practice. Start your business at the level you can maintain and add complexity as you go along.

Sample Business Plan Outline

There are many types of contracting companies in existence. They all follow the same general structure and planning process. We will

provide some sample outlines for your use in setting up your business plan. You can make use of all of them to design your business plan outline.

The following outline is a general one for use in setting up your business or for restructuring it. It contains the basic pieces to a complete business plan outline.

Questions to ask about business goals:

- Personal Goals

- ◆ Financial
- ◆ Work you do in the business
- ◆ Work you do not do in the business

- What is most important to me?
 - What gives my life meaning?
 - What do I want to do in my life?
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- Business Idea

- ◆ Service performed
- ◆ Product produced
- ◆ How the product or service is different from the competition's product or service

- Why Use the Business Idea to gain Personal Goals?

- ◆ Choice of business over employment
- ◆ Extra income or benefits

- Marketing Plan

- ◆ Market area or niche
- ◆ Market process
 - Advertising
 - Promotion
 - Publicity

Many contractors do not look at going into business as complicated or difficult because they are simply doing their trade as a business, rather than as an employee. For this reason they fail to ask a lot of questions on how to organize and protect their financial investment. Spend a little money and talk to an accountant and an attorney. Ask them about the difference they see between doing your trade as an employee and doing your trade as a business.

- Financial Plan

- ◆ Control and records
- ◆ Cash management

Your business plan is like a road map with many small goals on the way to your main destination.

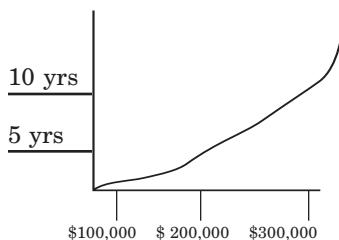
- ◆ Profit calculations
- ◆ Personal benefits
 - Income
 - Benefits
- Management Plan
 - ◆ Personnel plan
 - ◆ Project management
 - ◆ Administration organization

Start Out By Getting Information

You can ask yourself a lot of questions to help you get started on building your business plan. Because this is **your** business plan you should get it set up to meet your goals, not someone else's.

You can use these indicators to develop your intentions on how you want to use your business to specifically meet your goals:

1. Build personal net worth (scale of 1 to 5 going up on an angle with \$ signs)
2. Build confidence through personal accomplishment
3. Gain independence and freedom in life
4. Establish professional position
5. Avoid frustration with current position
6. Increase income
7. Contribute to society



Questions to Ask Yourself about Yourself

The following outline will help you determine what is best for you based on what you can know about yourself. You can build on your strengths and recognize areas you want to avoid with your business.

1. Who am I? List your capabilities:
 - What trade work do I know?
 - What trade skill do I hold as an advantage?
 - What business skills have I learned?
 - What business practice do I have?
 - What resources do I have in the form of cash?
 - What specific support can I count on from others?

What does it mean to you to own and operate your own contracting business?

2. Where am I? How far along do I think I am in the planning process.

- What is the market for my contracting business?
- Can I do all I have to do to start the business myself?
- Is this a good time to start my business?
- Do I have funds to start up with?
- What will I have to do before I can start the business?

Many contractors say they can do just fine planning their business as they go, "By the seat of their pants." However, almost anyone can do better with their brain than with their bottom.

3. Where do I want to go? What goals will push me to do a good job on my business?

- What are my business goals?
- What do I have to do to get sales to match my goals?
- What do I have to do to make production meet my goals?
- Where do I want to be in one, two, five, and ten years?

4. How do I get to my goals? What specific things are required to reach my business goals?

- How much business income do I need to reach my personal income levels?
- How will I manage the business to get the work done on time?
- How will I manage to keep quality levels high if I do not do the trade work?
- How will I administer all aspects of the business when it reaches the level I want it to?

There are five ways to help prepare for the start up of your business:

- *Moonlight. Do work on the side. Keep a steady day job, but get started a bit at a time.*
 - *Part-time. Go to part-time employment and part time business. Do this over enough time to get the business established.*
 - *Spin off. Start out as a subcontractor to our current employer. Do work for them and add new customers.*
 - *Cash buildup. Save money to cover 6 months to one year of living expenses before you start. Finance yourself.*
 - *Spouse support. Cut back on living expenses and live on one paycheck until the business gets going.*
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5. How will I sell my product? Who will be my customers over time?

- What is my best product or service to meet my goals?

If your business is a family business (husband and wife), you may want a family plan to match up with your business plan.

- Where will I focus my marketing efforts?
 - Who is my ideal customer for my services?
 - How will I get in touch with these people regularly?
 - How will I price my products to gain the maximum balance of revenue and profit?
 - How will I set up my business operation to maximize the sales possibility?
6. How will the company deal with finances? What will I do to make sure the company is meeting its financial goals so I can meet my personal goals?
- What is my break-even point to start with?
 - How long will the business take until it is profitable?
 - How soon does the business have to support me?
 - How will loans and start-up money be paid back?
 - How am I going to predict my cash flow?
 - What major assumptions have to be met in the first year?

A Written Plan

If your business plan is not in writing it can be called a phantom plan, unable to be communicated to anyone. You may say that the words you use communicate the plan to others. The truth is that your description of your business plan will likely be different each time you describe it. No two people will hear the same plan for the same business idea.

Getting any kind of a business plan on paper is evidence of:

- Commitment to a plan idea
- The idea being thought out
- The idea being clear enough that it can be discussed
- An intent to follow through

At the end of the chapter there are some examples of business plan outlines that you can use as patterns for your business plan. There is no exactly right outline for every contracting business. The idea is to use the samples to build your own plan, which will ensure that your business works for you the way you want it to.

A Blueprint for Building a Business.

You can use the concept of a blueprint as a guide for setting up or improving your contracting business. If your business is new, you are starting with an empty lot. If it is to be improved, you can use

the idea of remodeling your business. In both cases you are working from an idea to a functioning reality.

Site Work

All projects require site work to get ready to build. Your business plan requires preliminary work to determine what kind of business can be built to achieve your goals. A building will serve the needs of the occupant. Your business will serve your needs.

Instead of hiring survey and excavation crews, you will search yourself and your goals for the correct placement of business goals. The questions above serve to help you take the business idea and determine how it will work within the boundaries of your trade, management, and financial abilities. Just as the building has to fit on the lot, your business has to fit your personal requirements and abilities to run it.

Questions and gathering information are the site work of your business. Everything you find out about your business idea becomes part of your business plan. When your business plan is done, your business site work is done.

Just as the site is now ready for the building, your business is now ready to be built. The business plan has to be as complete as the building plans and specifications. However, there is one major difference between being ready to build a building and building a business. With a building you know a lot about the trade work required to complete the building. In most cases you will hire specialists to do certain trade work such as:

- Electrical
- Plumbing
- Fire sprinklers
- HVAC systems

In your business, you may be much less familiar with the "trade work" of business. You can solve this by hiring specialists and learning the business trade work required of your business.

For example, you can consult with these types of people:

- Accountants
- Bookkeepers
- Attorneys

*"An over supply of contractors appears to be permanent. Ease of entry into the business is certainly one of the problems."
Daily Journal of Commerce*

- Bankers
- Management experts
- Sales experts
- Financial planners

In this case you may spend much more time than a builder doing your business site work. Remember, it is of no use to start building your business until you are ready to take the project on. All mistakes will be financial. This means you will lose money or incur financial liabilities because of your lack of preparation.

You will always hear about businesses that are started without a business plan and that do well, even over time. As with all situations, there are exceptions to the rules. What is not always recalled are the vast majority of businesses that fail without a plan. A business plan will greatly increase the odds of controlling your destiny.

Foundation

The foundation of a building represents its bearing strength and stability. The foundation holds the building where it is intended to be and does not allow it to move, even in difficult situations like floods, wind and earthquakes. It has to be strong.

Your business foundation deals with cash, production and customers. You have to produce a product or service for customers and make a profit. This is the foundation of all business operations. Without these business foundation items the business can easily fall to slow times, poor cash flow, and poor quality production. Your business will not succeed without all three business foundation elements.

Cash

Cash is the lifeblood of any business. Without cash to pay bills and wages, your business is dead no matter how much work you have lined up or contracted. Contracting work is normally cyclical with variations for seasons, economic ups and downs, and the amount of bids accepted. You have to keep a strong foundation of cash at all times for business stability. While loans are possible, they should be a second choice.

You can keep cash flowing with contract payment terms designed to pay for the project as it goes. Any problem with schedules or disputes over payments can make cash stop flowing on time because of late payments. Bills will still come in and have to be paid.

"If writing a good plan scares you off, then maybe you should think about a less challenging occupation than entrepreneurship."
Mark S. Deion

Your business plan has to take into account how you will keep cash available at all times, even when things slow down.

Production

Production has two foundation elements; quality and on-time completion. Your project has to be what the customer expects, in terms of quality and on-time performance, as called for in the contract. Either problem will affect the way your business holds its strength.

Your business plan has to address production in terms of how you intend to keep from having quality and timely completion problems. If you are to do all the trade work, it is your problem directly. In most cases you will be working with many others to keep production up to high quality standards and on-time delivery.

Customers

You sell your products and services to customers. They have to be satisfied so there will not be payment problems and disputes. In addition, your best and cheapest form of marketing is word-of-mouth by satisfied customers. Therefore, part of your foundation has to include how you will keep prospects and customers satisfied.

All of the people you work for and with, as you get new work contracted, will require your attention to their project. You cannot expect anyone to understand and accept delays and late information in response to their questions. Your company has to be able to respond to all the people who need something from you. This takes management of your staff in order to produce satisfied customers.

While this may all sound difficult, remember that it is far easier to deal with happy people than with unsatisfied people. It is also easier to find new customers when the present ones are satisfied. Satisfied customers are part of your business foundation. Without them your business is on much less solid footing.

Frame

With a solid business foundation you can begin to build the structure. Using your strong cash position, quality production and effective marketing plans as a base, you add processes to maintain them.

The frame of the building represents its basic strength as a

"There are two parts to solving any problem: what you want to accomplish and how you want to do it. You must always ask the question, "What is?" before you ask the question, "How to?"
Richard Saul Wurman

structure. The frame is built to withstand the use of the building as well as to resist the breakdown of the building. Your business should have the strength of a strong frame. With your business, the frame consists of those primary operations that keep a business functioning:

- Marketing to produce new customers
- Managing to keep the business operating efficiently
- Financial dealings to maintain a strong cash flow
- Accounts and records to know the health of the business

Your business plan has to describe performance, not a product. Performance is a concept in the mind of the customer that is accomplished by the worker.

Marketing

Marketing is the promotion of your business. It is a set of routines you do constantly to make and keep people aware of your company. You target certain people who you believe are the best prospects for your products and services.

Contracting normally has cycles which range from way too busy to not busy at all. Marketing is designed to level out the work so you are busy most of the time with the type of work that is best suited for your operation.

Managing

Contractors can manage projects very well where they are directly involved in the work. When it comes to managing the operation of the business, there are many more problems. Yet a business has to be managed to be effective.

Your business plan has to show how you will deal with management issues. This is called "contractor work" in other volumes of the *Advantage Contractor Business Success Series*. Contractor work separates the business activity from the trade work all contractors like to do. The frame of your business has to include these management skills.

You may find that you can hire out some of these management duties. Full time and part time employees can be used to do a certain amount of the management tasks, especially those involved with accounting, recordkeeping and estimating. You will find that as you give up doing these tasks, you will also have to make sure that you are carefully reviewing the work. You have to make sure that the employees are doing the tasks as you desire.

Profits are the only income that produces surplus for your business. Every other part of your income is a cost. The fee you charge has to recover all the costs of the project, the costs of operating your business structure, and the profits necessary to secure the future of the business. Profits are not “what is left over” but a specific, predicted part of every project’s price.

Finances

The financial duties of your business are critical to the structure of your business. Low cash reserves will bring down even large and established contracting businesses. Your business structure has to be financially strong with good pricing and strong profits.

The business has to have a process for:

- Estimating
- Pricing including markup
- Budgeting of business costs
- Cost control of business expenses
- Cash flow accounting
- Project cost accounting

These processes are part of the financial structure of the business and act to give financial information quickly and accurately. With these processes built into the structure of the business, there is little likelihood that there will be financial surprises.

Your business plan has to provide for the means to keep in touch with the financial pulse of your business. The financial plan portion of your business plan is the method you will use for this critical task.

Accounts and Records

Your accounts and records of the activity of the business are the final part of your business structure. These papers and other items that you will save and record show what your business has done in any time period you may want to know about. The history of your business is not only important to you, it is also important to government agencies that regulate your business. You are likely to be audited by these people:

- Insurance company
- Employment departments
- Workers' compensation departments
- State revenue departments
- IRS

There is nothing wrong with planning to start a small contracting business that will stay small and productive.

Your business has a separate history from you, in spite of the fact that you might be a one person business. You cannot combine your personal and business records. If you fail to keep this separation, the above agencies can insist that you provide an accounting or they will levy maximum amounts for your payments. If you do not report all cash and expenses flowing through your business there can be substantial penalties.

Independent construction contractors are named correctly. Most contractors are bothered by the rules and regulations that they feel inhibit their work. The fact is, if you choose to do contracting you had better decide to work with the system rather than against it. It is simply easier. There are many contracting companies that work within the rules and make a fine profit while working with all the agencies that regulate them. Save your energy and do likewise.

Just as you have to know what your goals are and plan to make them a reality through your business plan, you have to have a means to know how you are doing on the road to your goals. Accounts will deal with:

- Income
- Business expenses
- Costs of materials
- Labor costs including payroll
- Subcontractor payments

Records have to do with:

- Sales negotiation notes
- Contract documents
- Specifications of the project
- Installed equipment in projects
- Schedules and work completed
- Client records and warranty information
- Financial and payroll records
- Labor costs for past projects kept by type of work

The self-owned and self-operated business is about the freest life in the world.

With good records you can go back and find information to use in upcoming projects to give you an advantage over your competition. This is especially true with difficult and specialized projects. Records of past financial performance give you powerful information about what might be coming in the future.

Systems

Every building needs systems to function for the occupants. In buildings these include:

- Plumbing
- HVAC
- Electrical
- Phone and T.V. cables

Stay focused on the big picture - look 1 to 5 years ahead. Steer the ship to the goal.

In your contracting business, your office and administration systems have to support the business operations. These include:

- Record keeping
- Sales
- Promotion
- Estimating
- Accounting
- Personnel

Within the structure of your business you build systems to accomplish various tasks which involve different people. Each system is designed to take information and produce a specific result. No one person will do all aspects of the system because there are more than one person involved.

Record keeping

Records come from many sources:

- They come in the mail in the form of papers from government agencies.
- They come from field staff in the form of invoices, time cards, and project schedule information.
- They come from financial records developed by bookkeepers, accounts and office staff.
- They come from subcontractors and owners in the form of contracts and project documents.
- They come from the sales people in the form of sales leads, prospect information and contract negotiations.

Sales

When the sale is made there is a transfer of information to the

production and administration staff. The sale has produced a detailed set of instructions about how the project will be done. Now this information has to be communicated around to all affected staff.

While sales negotiations are going on, the estimator and production people might be consulted about the costs and schedules a project might generate. Everyone has to be communicating about how the company can take on another project and who is to be doing the work. As soon as a sale becomes certain the company has to get moving to get the project underway.

Promotion

Part of your marketing plan is the consistent promotion of your business identity to the community. This involves a set of routines done by several people in the company. As the owner, you would do much of the promotion by telling people about what you do and by being active in the community. Your association with others would be promotion in many ways.

In addition to what you do yourself, others in the company would also promote the business. For example:

- Someone would make sure there is a listing ad in a few printed media like a newspaper, local newsletters of interest and other advertising papers.
- The project leader or supervisor would talk to neighbors about projects and get sales people in touch with the prospect.
- You might sponsor a local sports team for a season by buying hats or uniforms.

Your promotion system would keep the name of your company in public view constantly by using tasteful reminders.

The American customer is generally dissatisfied. You can make a long term successful business of "fixing" things for dissatisfied customers.

Estimating

The key to accurate estimating is current information. Materials prices change often. Even the items you order regularly can take a price increase when you are not aware of it. You find out with your first invoice that you are paying more for the lumber than you estimated. A price increase occurred just before you ordered. How are you going to keep your prices up-to-date for each estimate?

Labor is the hardest part of estimating. Many contractors make up a price list for labor tasks that are common to their operation. The estimator can go to a price list and use the rate listed for the specific task. This becomes of little use if wages go up, benefits go up or a new more expensive person is hired for the task. Administration staff have to keep these rates current. Any changes in costs of workers' compensation or unemployment have to be added in.

Costs for any task can change based on the pressures of the project site and the weather during work. You can list separate rates for various difficulty levels of any task. You have to guess or predict what difficulties the crew might have on the sight, without raising the labor rates too high and losing the project.

The easiest costs to forget, or get incorrect, are the costs of operating the business. Most contractors guess wildly at how much it costs to run the company. You cannot afford to do this. Set up a business cost budget and figure a way to apply the costs to every project you estimate. The *Advantage Contractor Business Success Series* courses, *Construction Estimating* and *Cash and Finance in Construction Contracting* can help you greatly in doing this.

Accounting

There are two types of accounting, tax and financial. Your system has to handle both well. Only when you have current and accurate financial and tax information can you be assured that your company is fiscally fit, or if not, to act to correct the problem quickly.

Tax accounting

Taxes have to be paid. The best way to deal with taxes is to make the correct payments at the proper time. This is easy when you are up-to-date on your tax liability. This is the least expensive way to pay taxes and it will keep auditors from darkening your door. Do not make problems for yourself; pay your taxes in a timely and accurate manner.

Financial Accounting

This part of your accounting system produces the statements that show you the performance of your business. The financial statements tell you:

- The value of your business, Balance sheet
- Your profit situation, Income statement
- Your cash position, the Cash statement

When considering how first your business should grow, consider this: Nothing in nature suggests that rapid growth is good. The most rapid growth in the body is cancer.

Of these, the cash statement is the most critical. For the sake of your business you cannot afford to misunderstand your cash position. This is most critical in times when the business is growing, or there is a lot of new business in a seasonal busy period. Your business needs extra cash to take on extra business. If you are not taking in enough cash to meet current bills and expenses, your business could close. No cash means no business.

Running a contracting business does not require a brilliant mind. It simply requires attention to the rules that business success demands. This is no more difficult than learning a trade.

Your accounting system has to protect you from any financial danger. In the *Advantage Contractor Business Success Series* course, *Record Keeping for Construction Contractors*, a records system is shown that you can use to supply your accounting system with current and accurate data for these critical financial statements.

Personnel

Any business is primarily its people. Whether it is you or you and many employees, you have to get all the people involved to support the same process. This means communication of accurate information in a timely manner. Your personnel system has to bring in quality people and help them fit into the system. This often means training about how your company works and follow up on how they are fitting in.

All the systems listed above rely on people doing their job as they are asked to. You cannot insist on rules, because you want people to solve problems in creative ways within the system. Your task is to have everyone understand how the company operates so they can act for the benefit of the company at all times.

Finish

Finish work on a building covers the rough edges and gives the building its "look and feel." An unfinished building will work just fine, but those using it will not feel very good about how they relate to it. Finish adds a concern to keep the building "looking good."

Many contracting companies do fine trade work, but they seem to not be concerned about how the business impresses customers and prospects. Your business has to "look" good as well as do good work.

You can finish your business with:

- A logo for your business
- Good looking stationery and forms
- Clean vehicles and equipment
- Clean employees and maybe uniforms
- An office that is neat if not pretty
- Prompt answers to questions and phone calls

You know contractors who seem to have too much "finish" in that they may not do the same quality work as some other contractors. Yet these contractors can stay in business while they improve their trade work because their customers are satisfied with how the project looks. There may be some repairs, but these contractors do them quickly.

Just as you will buy what looks good rather than something that is of better quality in some cases, your prospects are greatly influenced by what they see. Show them a "finished" business identity.

Making a "killing" in business has nothing to do with a plan to start or grow your company. A "killer" attitude will show through to your customers.

Long Term Use

All of your work, from the site work to the finish items, combines to produce a strong, workable product for a long time. Every owner expects a trouble free building which the occupants can use as intended.

Your business has to endure if you are to get the benefits from starting and operating it. No business can expect to immediately produce a big success and hold it for the long term. More likely you will start slowly and build the business into a profitable enterprise. You have to assume it will take time.

All buildings require maintenance on the systems and the finish of the building. A business is no different. You have to keep the business systems working and make adjustments as required by the business operations and growth. The look of the business can continually improve by adding customer features that make them feel good about your business.

Your business can only meet your personal expectations over time. The longer your business can produce for you, the more you will realize in personal results and goals.

Computer software programs can help you get started on your plan. However, they are poor at any kind of integration. This means that you can fool yourself easily because a poor part of the plan will not show up in a way to alert you to a correction. If you want your business plan to look good, the computer programs can produce what you want. However, they will not usually show you your errors of judgement. Any lender will want you to defend your plan. If you built it yourself, you can do it easily. If the computer built your plan, how good are you going to be at defending it? And, ultimately, will it work? As Brian McWilliams said, "No amount of automation will turn a lousy idea into a winning business."

Writing It Out

Now you can set up your first business plan. You can use the following outline or make up your own to meet the specific goals you are looking for. Do not skip steps. Do not allow yourself to assume some area will not be a problem or that you already do an item well. Cover all the bases. Start out correctly.

A sample of a business plan outline:

- Name of the Business
 - ◆ Your name
 - ◆ Descriptive name

- Business Purpose
 - ◆ Show your business sense
 - ◆ Your trade as a business
 - ◆ Do business through another's trade
 - ◆ A convincing description of business operations

- Your Personal Financial Statement
 - ◆ What are you bringing to the business
 - ◆ Which of your assets are usable in the business

- Cash Flow Projection for the First Year
 - ◆ Show income
 - ◆ Show business expenses
 - ◆ Show cost of goods for typical projects
 - ◆ Show where profit is coming from
 - ◆ Show details that will convince a lender

"A business plan, not excessive work, is that secret to successfully managing a small business."
Robert M. Donnelly
